




*Newconex Holdings
Limited*

14th ANNUAL REPORT
1975



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NEWCONEX HOLDINGS LIMITED

Head Office: Ste. 4003 (P.O. Box 40), Toronto-Dominion Centre, Toronto, Canada M5K 1B7

Authorized Capital - - - - - 4,000,000 shares, par value \$1.00
Issued - - - - - 2,106,425 shares, par value \$1.00

DIRECTORS

J. Ian Crookston - - - - - Toronto, Canada
J. Gerald Godsoe, C.B.E., Q.C., LL.D. - - - - - Toronto, Canada
Emory T. Grearson - - - - - Toronto, Canada
Dr. William F. James - - - - - Toronto, Canada
J. D. Leitch - - - - - Toronto, Canada
D. O. Lloyd-Jacob - - - - - New York, U.S.A.
Bryce R. P. MacKenzie, Q.C. - - - - - Toronto, Canada
Maj.-Gen. A. Bruce Matthews, C.B.E., D.S.O., E.D., C.D. - - - - - Toronto, Canada
J. D. McCall - - - - - London, England
G. J. Mortimer, M.B.E. - - - - - London, England
C. I. Rathgeb - - - - - Toronto, Canada
William A. Robinson, D.S.O. - - - - - Toronto, Canada

OFFICERS

J. Gerald Godsoe, C.B.E., Q.C., LL.D. - - - - - Chairman
William A. Robinson, D.S.O. - - - - - President
Emory T. Grearson - - - - - Vice-President and General Manager
E. Ray Ryan - - - - - Secretary-Treasurer and Controller
Marjory J. D. Williamson - - - - - Assistant Secretary-Treasurer

BANKERS

The Toronto-Dominion Bank

SOLICITORS

Fasken & Calvin - - - - - Toronto

AUDITORS

Deloitte, Haskins & Sells - - - - - Toronto

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Vancouver

NEWCONEX HOLDINGS LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

Net income for the year ended June 30, 1975 was \$2,363,731 or \$1.12 per share, which compares with \$533,274 or 25 cents per share for the previous fiscal year, an increase of \$1,830,457 or 87 cents per share.

Included in the net income of the current period are extraordinary items of income amounting to \$1,403,004, the most important of which is a gain of \$1,142,323 on the sale of certain exploration properties in the Pine Point area of the Northwest Territories. The orebody contained in these properties was not of sufficient size to warrant further development, and it was sold to a mining company which had production facilities in the area. The sale price was \$1,633,685, which amount is payable by the purchaser in five consecutive annual instalments of \$326,737, the first of which was received by the Company in November 1974. Income taxes of approximately \$560,000 otherwise payable on the sale of the properties have been eliminated by the application of current and prior years' exploration expenditures.

Net income before extraordinary items for the year ended June 30, 1975 was \$960,727 or 46 cents per share, an increase of \$427,453 or 21 cents per share over the net income of the previous year. There were no extraordinary items of income in the year ended June 30, 1974.

Net income from industrial operations increased during the current fiscal year, compared with the preceding year, due to the acquisition of a 57½% interest in Union Tractor Ltd., a distributor in Alberta of replacement parts for construction equipment and diesel engines, and of a 100% interest in Industrial Sales (1972) Ltd., a distributor in Saskatchewan of construction and other heavy equipment for several important manufacturers. The operations of the Company's equipment distributing subsidiary in British Columbia were at a lower level during the current period as a result of reduced economic activity in that province.

Additional information on the acquisition of the two subsidiary companies, in Alberta and Saskatchewan, and on the combined operations of the industrial subsidiaries during the current year is included in the notes to the consolidated financial statements as at June 30, 1975.

Income from investments increased appreciably in 1975, with a major portion of the improvement occurring in the trading securities operation.

The dividend of 21 cents per share, which was paid in June 1975, was maintained at the same rate per share as in the previous year.

For many years the Canadian exploration program was financed entirely by the majority shareholder of the Company, Consolidated Gold Fields Limited, and since 1972 the Company and Gold Fields have participated equally in this work. Gold Fields decided, in accordance with its general policy, to withdraw from direct participation in the exploration field effective December 31, 1974. Newconex is continuing with a budget for the current exploration year of approximately the same amount as the previous joint program.

Exploration during the year ended June 30, 1975 continued in the Cordilleran belt of British Columbia, the Yukon Territory and Alaska, and in the Precambrian of Ontario and Quebec. A silver property and a gold property were drilled in Ontario, and three airborne conductors were staked in Quebec, one being drilled. The drilling results were negative.

Several programs were undertaken jointly with other companies. Three properties in British Columbia were investigated, principally for copper and molybdenum, and one was drilled. Low gold assays over considerable length on one property will require further work. Four groups of claims were staked in the Yukon Territory on geochemical indications, and they are being investigated further. An option has been taken on a silver-zinc-lead-barite prospect in Alaska, and work is proceeding on this property.

Several joint venture reconnaissance programs are underway in British Columbia, the Yukon Territory and Alaska.

The Directors wish to express their appreciation of the cooperation and loyal efforts of all members of the Company's staff.

On behalf of the Board of Directors,

September 3, 1975.

W. A. Robinson,
President.

CONSOLIDATED BALAN

(with 1974 fi

ASSETS

	1975	1974
Current Assets:		
Cash and demand deposits	\$ 403,310	\$ 1,846,995
Dividends and interest receivable	38,940	23,362
Accounts and notes receivable	5,913,467	1,780,662
Trading securities — Note 2	593,447	1,249,814
Inventories	11,505,337	5,052,185
Prepaid expenses	173,857	55,778
Income taxes recoverable	53,218	—
	<u>18,681,576</u>	<u>10,008,796</u>
Note Receivable — Note 3	<u>980,211</u>	<u>—</u>
Investments — at cost:		
Marketable securities — Note 2	10,598,720	11,548,252
Securities without quoted market value	454,590	454,590
	<u>11,053,310</u>	<u>12,002,842</u>
Property, Plant and Equipment — Note 4	7,690,477	1,803,665
Less accumulated depreciation	1,610,868	643,989
	<u>6,079,609</u>	<u>1,159,676</u>
Mining Properties Under Investigation	<u>119,531</u>	<u>538,509</u>
Goodwill — excess of cost of shares of subsidiary over the book value thereof		
— Note 5	<u>239,629</u>	<u>—</u>
	<u><u>\$37,153,866</u></u>	<u><u>\$23,709,823</u></u>

See accompanying

NGS LIMITED

(Incorporated in the Province of Ontario)

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 1975

(For comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	1975	1974
Bank indebtedness — Note 6	\$ 4,436,419	\$ 1,968,000
Accounts payable and accrued charges — Note 6	6,697,590	3,161,642
Income taxes	655,997	197,009
Current portion of long-term debt	315,082	30,837
	<u>12,105,088</u>	<u>5,357,488</u>
Long-Term Debt — Note 7	2,209,039	155,951
Deferred Income Taxes	147,637	—
Minority Interest in Subsidiary Companies	1,600,698	—
Shareholders' Equity:		
Capital stock — Note 8:		
Authorized — 4,000,000 common shares of a par value of \$1 each		
Issued and fully paid — 2,106,425 shares	2,106,425	2,106,425
Contributed surplus	8,153,315	8,153,315
Appraisal surplus — note 4	973,638	—
Retained earnings	9,858,026	7,936,644
	<u>21,091,404</u>	<u>18,196,384</u>
Approved by the Board:		
(signed) J. G. Godsoe, Director.		
(signed) W. A. Robinson, Director.		
	<u>\$37,153,866</u>	<u>\$23,709,823</u>

Financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended June 30, 1975
(with 1974 figures for comparison)

	1975	1974
Income from industrial operations — Note 10	\$1,773,942	\$ 953,757
Dividend income	613,346	503,974
Realized capital gains on investments	547,207	346,494
Profit on realization of trading securities	197,004	302,816
Adjustment on valuation of trading securities — Note 1(a)	71,665	(503,207)
Interest and sundry revenue	62,098	199,956
	<u>3,265,262</u>	<u>1,803,790</u>
Deduct:		
Administrative and general expenses	529,942	487,402
Exploration expenditures written off	424,223	308,093
	<u>954,165</u>	<u>795,495</u>
Income before provision for income taxes	2,311,097	1,008,295
Provision for income taxes	1,118,063	475,021
Income before minority interest and extraordinary items	1,193,034	533,274
Minority interest in earnings of subsidiaries	232,307	—
Net income before extraordinary items	<u>960,727</u>	<u>533,274</u>
Extraordinary Items:		
Gain on sale of exploration properties — Note 12	1,142,323	—
Income tax reductions from application of prior years' losses	190,181	—
Share of earnings of subsidiary — Note 5	70,500	—
	<u>1,403,004</u>	<u>—</u>
Net income	<u>\$2,363,731</u>	<u>\$ 533,274</u>
Earnings Per Share:		
Net income before extraordinary items	<u>\$ 0.46</u>	<u>\$ 0.25</u>
Net income	<u>\$ 1.12</u>	<u>\$ 0.25</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended June 30, 1975
(with 1974 figures for comparison)

	1975	1974
Retained earnings at beginning of the year	\$7,936,644	\$7,845,719
Net income	2,363,731	533,274
	<u>10,300,375</u>	<u>8,378,993</u>
Dividend	442,349	442,349
Retained earnings at end of the year	<u>\$9,858,026</u>	<u>\$7,936,644</u>

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended June 30, 1975

(with 1974 figures for comparison)

SOURCE OF FUNDS:	<u>1975</u>	<u>1974</u>
From operations:		
Income before minority interest and extraordinary items	\$1,193,034	\$ 533,274
Add items not involving funds:		
Depreciation	292,282	111,641
Goodwill written off	59,907	—
Deferred income taxes	15,488	—
Income taxes eliminated by application of prior years' losses	190,181	—
Funds from operations	1,750,892	644,915
Cost of marketable securities sold	1,805,924	1,969,128
Increase (decrease) in long-term debt	529,318	(30,837)
Sale of exploration properties — less amounts due after one year	614,265	—
Increase in working capital of subsidiary company for the six months ended June 30, 1974 — Note 5	63,571	—
Issue of capital stock	—	107,580
Total funds provided	<u>4,763,970</u>	<u>2,690,786</u>
APPLICATION OF FUNDS:		
Purchases of marketable securities	856,392	2,509,957
Purchases of property, plant and equipment	1,413,048	270,304
Dividend	442,349	442,349
Increase (decrease) in mining properties under investigation	33,175	(25,654)
Cost of acquisition of industrial subsidiaries, less working capital of \$2,091,185	93,826	—
Represented by:		
Property, plant and equipment	\$ 3,451,987	
Accumulated depreciation	(714,528)	
Goodwill	299,536	
Long-term debt	(1,553,066)	
Deferred income taxes	(128,406)	
Minority interest	(1,261,697)	
	<u>\$ 93,826</u>	
Total funds applied	<u>2,838,790</u>	<u>3,196,956</u>
INCREASE (DECREASE) IN WORKING CAPITAL	1,925,180	(506,170)
WORKING CAPITAL AT BEGINNING OF THE YEAR	4,651,308	5,157,478
WORKING CAPITAL AT END OF THE YEAR	<u>\$6,576,488</u>	<u>\$4,651,308</u>

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) Valuation of securities — trading securities held at the fiscal year end are valued at the lower of average cost or market value. Appreciation in the market value of such securities is recorded in the accounts only to the extent that it represents a recovery in the market value of securities previously written down. Other securities are valued at average cost.

Investments in foreign securities have been shown in Canadian currency at the rates of exchange in effect at the time of purchase. The determination of the market values of such securities at the fiscal year end recognizes the then current exchange rates. Transactions in the consolidated statement of income have been translated at the rates of exchange prevailing at the dates of settlement.

- (b) Inventories — inventories are valued at the lower of cost or net realizable value.
- (c) Depreciation — property, plant and equipment are depreciated, generally, at the following rates:
- Buildings — 2½% - 5% straight line basis
 - Equipment — 10% reducing balance basis
 - Automotive — 25% - 30% reducing balance basis.

- (d) Mining properties under investigation — investigation expenditures are carried as assets until the investigation is abandoned at which point the accumulated expenditures are charged to income.

2. MARKET VALUE OF SECURITIES

The market value as at June 30, 1975 of trading securities was \$601,000 (1974 — \$1,265,000) and of marketable securities was \$10,944,000 (1974 — \$11,330,000).

3. NOTE RECEIVABLE

The note receivable is non-interest bearing and represents the balance of the proceeds from the sale of exploration properties, less the portion due within one year included in current assets. The balance is receivable in equal annual instalments of \$326,737, the last of which is due in 1978.

4. PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment and their bases of valuation are as follows:

At appraised value:

Land	\$1,200,000
Buildings	500,000
	<u>1,700,000</u>

At cost:

Land	1,422,991
Buildings	1,948,595
Equipment	2,066,023
Automotive	552,868
	<u>7,690,477</u>
Less accumulated depreciation	1,610,868
	<u>\$6,079,609</u>

Certain land and buildings of a subsidiary company were appraised by Bell-Irving Appraisals of Vancouver, British Columbia, on August 19, 1974 on the basis of market value as of that date. The appraisal surplus, which relates principally to land, amounted to \$973,638.

5. ACQUISITION OF SUBSIDIARIES

In November 1974 the Company acquired a 57½% interest in Union Tractor Limited for a cash purchase price of \$1,630,011 which amount was equivalent to the equity in the net assets acquired at the effective date of acquisition, January 1, 1974. Included in the net assets of Union Tractor Limited were land and buildings in Alberta which had been written up, within the five years preceding the acquisition date, by \$1,342,600 to their appraised value. The Company's share of the earnings of this subsidiary for the six months ended June 30, 1974, less the applicable portion of interest paid on the purchase price, has been recorded as an extraordinary item of income in the current year.

Effective July 1, 1974, the Company acquired all of the issued share capital and a \$195,000 promissory note of Industrial Sales (1972) Limited, for a cash purchase price of \$750,000, which included an amount of \$299,536 for goodwill. The goodwill is being amortized over a five year period.

Both of the acquisitions have been accounted for as purchases.

6. CURRENT LIABILITIES

Included in bank indebtedness are bank loans totalling \$3,662,000 which are secured.

Accounts payable include amounts totalling \$2,685,000 owing on and secured by specific units of equipment inventory.

7. LONG-TERM DEBT

Long-term debt, less the portion included in current liabilities, is comprised of the following:

	Interest Rate	Due	Amount	
Mortgages payable	6%	1989	\$1,197,264	
	11¾%	1980	88,866	
	9½%	1984	33,094	\$1,319,224
Bank loans	9%	1981	105,792	
	10%	1980	383,334	489,126
Amounts due under finance contracts				183,643
Other				217,046
				<u>\$2,209,039</u>

The long-term debt of \$2,209,039 is payable as follows: 1977 — \$406,988; 1978 — \$284,761; 1979 — \$195,115; 1980 — \$183,804; after 1980 — \$1,138,371.

During the current year total interest expense was \$613,771 (1974 — \$212,180) which included interest on long-term debt of \$133,338 (1974 — \$15,649).

8. STOCK OPTION PLAN

Under the stock option plan for employees of the Company, there were outstanding options as at June 30, 1975 on 32,500 common shares exercisable at various dates, at prices ranging from \$4.55 to \$6.75, the last of which expires in 1983. During the year no options were granted or exercised.

9. COMMITMENTS AND CONTINGENCIES

The future rental on leases in effect at June 30, 1975 was approximately as follows: 1976 — \$330,000; 1977 — \$262,000; 1978 — \$187,000; 1979 — \$131,000; 1980 — \$80,000; 1981 to 1985 — \$227,000.

Certain industrial subsidiaries are contingently liable as guarantors of customers' notes discounted totalling \$1,285,000 (1974 — \$1,282,000).

At June 30, 1975 capital expenditures authorized, but not contracted for, amounted to \$1,229,000.

10. INCOME FROM INDUSTRIAL SUBSIDIARIES

The income from industrial operations, before income taxes and minority interest, which in 1975 includes the operations of the two subsidiaries acquired during the year (see Note 5), comprises the following:

	1975	1974
Sales	\$36,448,856	\$14,641,351
Cost of sales	26,436,700	11,508,441
Gross margin	10,012,156	3,132,910
Selling, administrative and general expenses	8,238,214	2,179,153
Income from industrial operations	<u>\$ 1,773,942</u>	<u>\$ 953,757</u>

Selling, administrative and general expenses for 1975 include goodwill amortization of \$59,907 and interest of \$77,800, being the applicable portion of interest paid on the purchase price of subsidiaries acquired during the year.

11. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid to the Company's directors, officers and senior employees in the current year was \$156,145 (1974 — \$141,950).

12. INCOME TAXES

The Company and certain of its subsidiaries have available for application against their taxable income of future years operating losses of approximately \$558,000 and accumulated exploration expenditures of approximately \$4,434,000. While the operating losses expire, for tax purposes, during the years 1976 to 1980, the accumulated exploration expenditures are available indefinitely. Any income tax reductions resulting from utilization of these operating losses and accumulated exploration expenditures will be recorded at the time of realization. Income taxes otherwise payable of approximately \$560,000 on the sale of exploration properties have been eliminated by the application of current and prior years' exploration expenditures.

13. COMPARATIVE FIGURES

Certain of the 1974 figures for comparison have been reclassified to conform with the 1975 presentation.

AUDITORS' REPORT

To the Shareholders of
Newconex Holdings Limited:

We have examined the consolidated balance sheet of Newconex Holdings Limited as at June 30, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
July 25, 1975.

Deloitte, Haskins & Sells,
Chartered Accountants.

NEWCONEX HOLDINGS LIMITED

AND SUBSIDIARY COMPANIES

The Portfolios at June 30, 1975 included the following securities:

MARKETABLE SECURITIES

Canadian

12,500	Alberta Eastern Gas Limited
10,000	Alcan Aluminium Limited
50,000	Canadian Industrial Gas & Oil Ltd.
10,000	Canadian Superior Oil Ltd.
10,000	Conwest Exploration Company Limited
3,500	Dome Petroleum Limited
15,000	Dominion Foundries and Steel Limited "Class A"
3,200	Falconbridge Nickel Mines Limited
15,000	Hollinger Mines Limited "Class A"
1,000	Home Oil Company Limited "Class A"
19,000	Home Oil Company Limited "Class B"
7,500	Husky Oil Ltd.
12,500	Imperial Oil Limited "Class A"
17,500	The International Nickel Co. of Canada Limited "Class A"
50,000	Lornex Mining Corporation Ltd. (N.P.L.)
30,000	Pine Point Mines Limited
28,000	Placer Development Limited
25,000	Rio Algom Mines Limited
30,000	TransCanada PipeLines Limited
5,000	United Canso Oil & Gas Ltd.

United States

5,000	American Airlines, Incorporated
9,000	Atlantic Richfield Company
7,000	Burlington Northern Incorporated
6,000	Caterpillar Tractor Company
3,000	Chrysler Corporation
4,500	Exxon Corporation
17,000	Newmont Mining Corporation
10,000	Phillips Petroleum Company
13,000	The Standard Oil Company (Ohio)
3,000	Trans World Airlines, Incorporated
2,000	Westinghouse Electric Corporation

South African and Other

17,000	Blyvooruitzicht Gold Mining Co., Ltd.
5,000	Queensland Mines Limited
10,000	Vaal Reefs Exploration and Mining Co. Ltd.

SECURITY WITHOUT QUOTED MARKET VALUE

685,002	Coppermine River Limited
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